



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Coolidge Unified School District No. 21

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 28, 2005

Governing Board
Coolidge Unified School District No. 21
221 West Central Avenue
Coolidge, AZ 85228

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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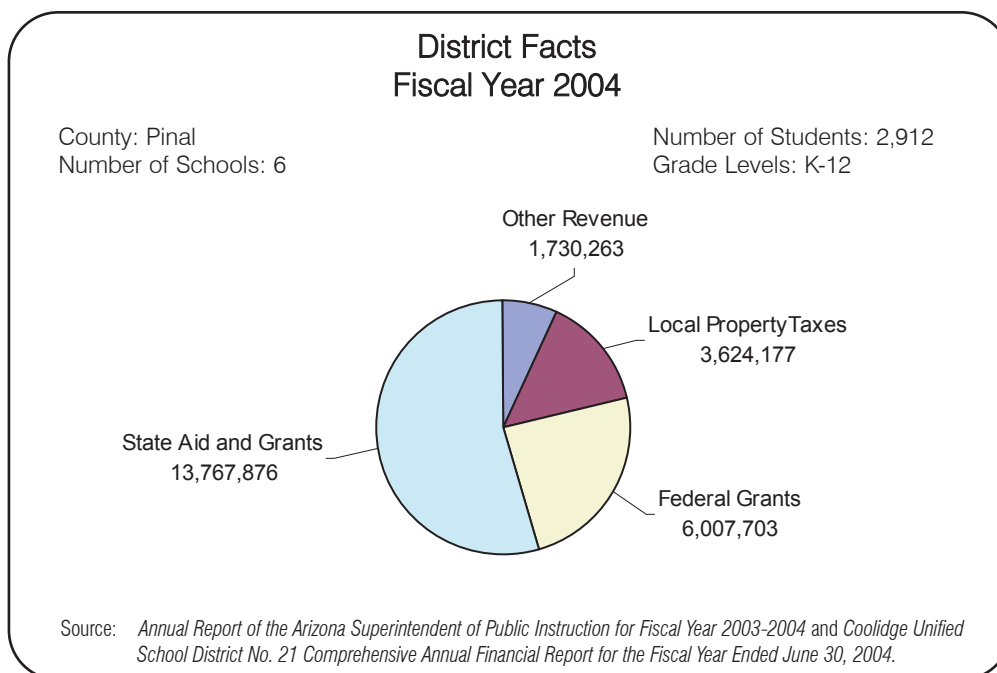
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INTRODUCTION

Coolidge Unified School District No. 21 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$25 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should strengthen controls over purchasing

The District may not have received the best value for the public monies it spent, as it did not always obtain competitive sealed bids/proposals, or oral or written price quotations.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. For example, the District did not always issue invitations for bids or requests for proposals for purchases requiring them or maintain documentation to support that appropriate procurement procedures were followed. Additionally, the District did not always obtain oral or written price quotations for purchases that required them and did not document the reasons that the vendor with the lowest quotation was not selected for two purchases. Finally, the District did not always prepare purchase orders prior to ordering goods or services.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

- Issue invitations for bids or requests for proposals, as appropriate, for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689.
- Have the Governing Board determine in writing that the use of competitive sealed bids is either not practicable or not advantageous to the District before making purchases using competitive sealed proposals.
- Include all information required by School District Procurement Rules in the invitations for bids and requests for proposals and retain all supporting documentation.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689, and oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations. If a vendor is selected for reasons other than the lowest quotation, the District should fully document the reasons for such selection.
- Prepare and approve purchase orders before ordering goods and services.

The District should ensure its accounting records are accurate

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that transactions are properly supported, recorded in the appropriate accounts, and reconciled in a timely manner. However, the District did not fully accomplish this objective. For example, the District did not prepare reconciliations of its cash balances to the County Treasurer's cash balances for the first 5 months of the fiscal year. Additionally, the District incorrectly recorded lease payments in the Maintenance and Operation Fund rather than the Unrestricted Capital Outlay Fund. Also, the District recorded revenue and expenditures for its preschool program in the Auxiliary Operations Fund rather than the Community Schools Fund. Finally, the District did not properly carry its Classroom Site Funds (CSF) budget balance forward from the prior year.

The District did not verify its cash on deposit with the County Treasurer, as it did not reconcile its cash balances to the Treasurer's records each month.

Recommendations

The following procedures can help the District record and report accurate financial information:

- Reconcile the District's cash balances to the County Treasurer's cash balances at least monthly and at fiscal year-end. The District should investigate all reconciling items and make any necessary corrections in the following month.
- Classify all financial transactions in accordance with the USFR Chart of Accounts.
- Ensure that CSF monies are correctly classified, recorded, and used in accordance with Arizona Revised Statutes §15-977. In addition, the District should ensure that all CSF budget balances remaining at fiscal year-end are properly carried forward in the appropriate fund.

USFR §III provides guidance for classifying financial transactions.

USFR Memorandum Nos. 194 and 215 provide guidance on accounting for monies from the CSF.

The District should improve documentation of student membership and attendance

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately

The District may not have received the proper amount of funding, as it did not keep attendance records for kindergarten students.

document entry and withdrawal dates, attendance, and absences. However, in fiscal year 2004, the District did not retain attendance records for kindergarten. Also, the District did not always retain enrollment forms or record an entry date on the form. Finally, the District did not record student withdrawal dates in the attendance records in a timely manner.

Recommendations

To help ensure the District receives the correct amount of state and local funding, the District should retain documentation to support membership and attendance reported to ADE. The documentation should include completed student entry and withdrawal forms, attendance cards, and absence reports. Further, a second district employee should verify that student entry and withdrawal dates on the forms agree with those in the District's attendance records. Finally employees should enter withdrawal dates in the attendance records at least weekly to help ensure that periodic reporting to ADE is based on current information.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

The District should strengthen controls over cash

The District is accountable to the state and local taxpayers for the use and safeguarding of the assets entrusted to it, including significant amounts of cash. However, the District did not adequately safeguard cash on deposit with banks and ensure that it approved only proper transfers and expenditures. Specifically, the District had over \$344,000 in bank deposits that was uninsured and uncollateralized at June 30, 2004. Also, the District inappropriately transferred over \$175,000 from the Deficiencies Correction Fund to the Unrestricted Capital Outlay Fund. Finally, the District made expenditures in its Community Schools Fund that exceeded available cash and resulted in a negative cash balance of over \$58,000 at June 30, 2004.

Recommendations

To help strengthen controls over cash, the District should:

- Obtain collateral agreements with its banks for amounts on deposit in excess of the Federal Deposit Insurance Corporation threshold to ensure the District's monies are secure.
- Transfer monies between funds only when specifically authorized by statute.
- Authorize expenditures from cash-controlled funds only when monies are available to cover the payment.

A list of authorized transfers is provided on USFR pages III-F-1 through 3.